

**SPENCER MUNICIPAL UTILITIES**  
**INDEPENDENT AUDITOR'S REPORTS**  
**FINANCIAL STATEMENTS**  
**SUPPLEMENTARY INFORMATION**  
**AND SCHEDULE OF FINDINGS**

**DECEMBER 31, 2022**

**T. P. ANDERSON & COMPANY, P.C.**  
**Certified Public Accountants**

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**SPENCER MUNICIPAL UTILITIES  
OFFICIALS**

**DECEMBER 31, 2022**

<u>Board of Trustees</u>	<u>Title</u>	<u>Term Expires</u>
Jill Davis	Chairperson	June 2023
Seth McCaulley	Vice Chairperson	June 2025
Christine Tostenrud	Secretary	June 2028
Duane Barber	Treasurer	June 2026
Kent Nelson	Trustee	June 2024

Management

Steven Pick	General Manager
Mike Carlson	Assistant General Manager
Travis Edwards	Finance Manager



T.P. ANDERSON & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Spencer Municipal Utilities  
Spencer, IA 51301

### **Report on the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of each major fund of Spencer Municipal Utilities (the Utilities), a component unit of the City of Spencer, Iowa, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Utility's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Spencer Municipal Utilities, as of December 31, 2022 and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Utility and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Emphasis of Matter***

As discussed in Note 19 to the financial statements, the Utility adopted new accounting guidance related to Governmental Accounting Standards Board Statement No. 87, Leases. Our opinions are not modified with respect to this matter.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that arise substantial doubt about the Utility's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GASS and *Governmental Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Governmental Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Utility's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of American require that the Management's Discussion & Analysis, the Budgetary Comparison Information, the Schedule of the Utility's Proportionate Share of the Net Pension Liability, the Schedule of Utility Contributions, and Notes on pages 5 through 13 and 40 through 46 be presented to supplement the financial statements. Such information is the responsibility of management and, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplemental Information***

Our audit was conducted for the purpose of forming opinions on the Utility's financial statements. The other information included on pages 47-61 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating revenues and expenses are fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2023 on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance

*TP Anderson & Company, P.C.*

Humboldt, Iowa

April 14, 2023

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Spencer Municipal Utilities (SMU) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2022. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- ◆ Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.
- ◆ The Statement of Net Position presents information about the Utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the Utility's net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.
- ◆ The Statement of Revenues, Expenses, and Changes in Net Position presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses, and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.
- ◆ The Statement of Cash Flows presents the change in the Utility's cash and cash equivalents during the year as a result of operations, noncapital financing activities, capital and related financial activities, and investing activities. This information can assist in determining how the Utility financed its activities and how it met cash requirements.
- ◆ Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- ◆ Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year, the Utility's proportionate share of net pension liability and related contributions, as well as presenting the Schedule of Changes in the Utility's Total OPEB Liability.
- ◆ Supplementary Information provides comparative financial data by Utility.

### 2022 FINANCIAL HIGHLIGHTS BY MAJOR FUND

#### Electric Utility

The Utility delivered approximately 153,570,000 kilowatt hours (kWh) of electricity to its retail customers in 2022 compared to approximately 150,403,000 kWh in 2021.

The Utility's net position increased by \$3,835,245 to \$64,622,174. Operating income decreased by 14% in 2022 due to a large decrease in wholesale energy sales to other utilities and a small decrease in revenue from Southwest Power Pool (SPP) for use of transmission lines. Operating expenses also decreased by about 15%. The decrease was due to a large reduction in power supply costs, and smaller reductions in distribution costs, depreciation expense, and customer service & administration expenses. Non-Operating income (expense) for 2022 resulted in income of \$42,124 compared to an expense of \$683,279 in 2021. Contributing factors for 2022 was a large increase in interest income, grant revenue received, and a gain on sale of assets.

#### Condensed Financial Information

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning:

### Condensed Statements of Net Position

	2022	2021
Current Assets	\$ 24,365,050	\$ 20,276,654
Noncurrent Assets	745,601	536,393
Capital assets, net of depreciation	42,285,980	43,307,851
Total Assets	<u>67,396,631</u>	<u>64,120,898</u>
Deferred Outflows of Resources	<u>351,425</u>	<u>443,361</u>
Current Liabilities	1,665,179	1,807,116
Noncurrent Liabilities	251,986	1,499,238
Total Liabilities	<u>1,917,165</u>	<u>3,306,354</u>
Deferred Inflows of Resources	<u>1,208,717</u>	<u>470,976</u>
Net Investment in Capital Assets	42,285,980	43,307,851
Restricted	545,796	430,131
Unrestricted	21,790,398	17,048,947
Total Net Position	<u>\$ 64,622,174</u>	<u>\$ 60,786,929</u>

### Condensed Statements of Revenues, Expenses and Changes in Net Position

Sales of Electricity	\$ 13,606,953	\$ 12,477,208
Other	6,313,564	10,623,868
Total Operating Revenue	<u>19,920,517</u>	<u>23,101,076</u>
Power Supply Costs	10,528,445	12,854,825
Distribution System Maintenance	1,432,082	1,635,272
Depreciation & Amortization	2,817,115	2,893,110
Customer Service & Administration	1,247,735	1,389,231
Resource Conservation	102,019	103,408
Total Operating Expenses	<u>16,127,396</u>	<u>18,875,846</u>
Operating Income	3,793,121	4,225,230
Interest Income	217,402	57,808
Grant Revenue	300,000	-
Other Income (Expense)	(475,278)	(741,087)
Total Non-Operating Income (Expense)	<u>42,124</u>	<u>(683,279)</u>
Transfer out	-	(995,000)
Change in Net Position	3,835,245	2,546,951
Net Position, Beginning of Year	<u>60,786,929</u>	<u>58,239,978</u>
Net Position, End of Year	<u>\$ 64,622,174</u>	<u>\$ 60,786,929</u>



## Financial Analysis

The Utility's total assets increased by \$3,275,733 in 2022 compared to the 2021 balance. This is a combination of a \$4,088,396 increase in current assets, a \$209,208 increase in noncurrent assets, and a \$1,021,871 decrease in net capital assets. Cash and cash equivalents increased by \$3,774,105, mostly as a result of operations for 2022. Other current assets changes included increases in accounts receivable, inventory, prepaid expenses and unbilled usage, offset by a decrease in lease receivables. The increase in noncurrent assets was due to an increase in notes receivable. The decrease in net capital assets included \$2,817,115 in depreciation expense offset by net asset additions of \$1,795,244 in 2022.

The Utility's total liabilities decreased by \$1,389,189 in 2022. Accounts payable decreased by \$180,324 in 2022 as compared to the 2021 balance. There was a decrease in net pension liability of \$1,220,235 and a decrease in total OPEB liability of \$27,017 in 2022. This is due to reporting compliance with GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions". The remaining liabilities, including accrued liabilities, consumer deposits, and unearned revenue, netted to an increase of \$38,387 from the 2021 balances.

The Utility's net position increased by \$3,835,245 as a result of positive operations for 2022.

The Utility's gross operating revenues decreased by \$3,180,559 or about 14% in 2022. Sales of electricity to customers increased by \$1,129,745, from \$12,477,208 in 2021 to \$13,606,953 in 2022. Residential sales increased by 3,060,023 kWh in 2022 compared to 2021 or approximately 5%. Commercial & Public Authority sales increased by 596,473 kWh and Industrial sales decreased by 490,000 kWh in 2022 compared to 2021. This represents a less than 1% increase in commercial usage from 2021 to 2022. The Energy Cost Adjustment (ECA) revenue increased by \$612,240 in 2022 compared to 2021. The Utility adopted an Energy Cost Adjustment (ECA) for all consumption beginning September 7, 2005. The ECA is calculated monthly and is designed to recoup the additional costs of power supply from the consumer. The Other operating revenue decreased by \$4,310,304, from 10,623,868 in 2021 to \$6,313,564 in 2022. Sales for Resale decreased from \$7,689,455 in 2021 to \$3,112,693 in 2022. A large amount of the 2021 revenue was generated by an extended call to run our jet turbine generators in February of 2021 during the polar vortex. Other revenue is generated here from selling Walter Scott, Jr. Energy Center Unit 4, George Neal Generating Station Unit No. 4, Whelan 2, and Wisdom 2 excess kWh to NIMECA. There was also a \$189,910 decrease in revenue from Southwest Power Pool (SPP) for use of transmission lines in 2022, \$211,813 in sales of renewable energy certificates, and an increase of \$240,165 in miscellaneous revenue in 2022.

The Utility's operating expenses decreased by \$2,748,450 in 2022 compared to 2021. Costs of generation and transmission decreased by \$2,326,380 or 18% from the 2021 costs. Much of this reduction in cost in 2022 also stemmed from the increased generation cost in February of 2021 with the polar vortex. Distribution system maintenance expense decreased by \$203,190 or 12% compared to the 2021 expense. The largest decrease in distribution expense was the net decrease in pension expense and smaller decreases in vehicle maintenance, outage cost, and locating cost. Depreciation and amortization expense decreased from \$2,893,110 in 2021 to \$2,817,115 in 2022. Customer service & administration expenses decreased by a total of \$141,496 in 2022. This included a decrease in customer accounting and collections expense, pension expense, and regulatory expense, offset by increases in outside services employed, administrative salaries/expense, training, and insurance expense. Resource conservation expense decreased by \$1,389 in 2022.

Total net operating income generated in 2022 was \$3,793,121 compared to a net operating income of \$4,225,230 in 2021.

Utility non-operating income (expense) resulted in \$42,124 of income in 2022 compared to \$683,279 of expense in 2021. There was a \$159,594 increase in interest income, and \$300,000 received in grant revenue in 2022. There was also a gain on asset retirement of \$160,624 in 2022 compared to a loss on retirement of \$83,111 in 2021. Other items related to nonoperating income (expense) included lease revenue, contributions from developers, economic development expense, and payments in lieu of property tax and netted to an increase of \$22,074 in 2022.

The Electric Utility had a net profit of \$3,835,245 for the year ended December 31, 2022 compared to a net profit of \$2,546,951 in 2021. The 2021 amount included a \$995,000 transfer from the Electric Utility to the Water Utility.

### **Economic Factors**

During the year ended December 31, 2022, the Utility experienced a net income of \$3,835,245. A rate change of approximately 3% was also adopted and became effective March 1, 2022. The rate changes have been needed to allow the Utility sufficient coverage of operational and non-operational expenses. Management will continue to monitor the operations of the Utility in addition to projected capital expenditures and propose rate adjustments accordingly.

The electric industry continues to experience change in generation sources. SMU has a diversified resource portfolio including hydro, coal, wind, diesel and natural gas. As the future of coal generation continues to be discussed throughout the industry, we continue to evaluate SMU's generation mix. The current life expectancy of our coal plants including Neal 4 and Walter Scott Jr 4 is 20 years. At this time, there are no plans to retire the plants early. However, the Utility continues to monitor the impact of new generation resources in the electric energy market including wind, solar and gas and the impact they may have on coal generation resources along with environmental pressure on fossil fuel generation facilities. The Utility keeps in close contact with MidAmerican Energy, the operating entity for Neal 4 and Walter Scott Jr 4, to determine if there are any plans for early retirement of Neal 4 or Walter Scott Jr 4 and potential decommission costs, along with discussions about options for the Utility to sell the plant. There are no plans to sell the Neal 4 or Walter Scott Jr 4 Power Plants at this time.

### **Water Utility**

The Utility delivered approximately 363,915,000 gallons of water to its retail customers in 2022, compared to approximately 366,204,000 gallons in 2021.

The Utility's net position increased by \$1,110,557 to \$21,577,592 for the year ended December 31, 2022. This increase was the result of operations for the year, with revenue remaining comparable to the 2021 amount and expenses slightly lower than 2021. The last customer water usage rate increase was in August of 2020.

### **Condensed Financial Information**

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning:

Condensed Statements of Net Position

	2022	2021
Current Assets	\$ 5,363,804	\$ 4,523,870
Capital assets, net of depreciation	30,420,629	31,054,020
Total Assets	<u>35,784,433</u>	<u>35,577,890</u>
Deferred Outflows of Resources	<u>104,201</u>	<u>136,016</u>
Current Liabilities	1,925,310	1,795,825
Noncurrent Liabilities	43,449	454,382
Long Term Debt	11,919,449	12,848,283
Total Liabilities	<u>13,888,208</u>	<u>15,098,490</u>
Deferred Inflows of Resources	<u>422,834</u>	<u>148,381</u>
Net Investment in Capital Assets	17,577,180	17,304,737
Restricted	1,784,515	1,772,209
Unrestricted	2,215,897	1,390,089
Total Net Position	<u>\$ 21,577,592</u>	<u>\$ 20,467,035</u>

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2022	2021
Sales of Water	\$ 3,855,697	\$ 3,870,010
Other	17,759	31,607
Total Operating Revenue	<u>3,873,456</u>	<u>3,901,617</u>
System Operation & Maintenance	1,165,649	1,255,908
Depreciation & Amortization	1,212,723	1,279,031
Customer Service & Administration	266,252	265,601
Total Operating Expenses	<u>2,644,624</u>	<u>2,800,540</u>
Operating Income	1,228,832	1,101,077
Interest Income	43,492	18,139
Interest Expense	(275,893)	(311,109)
Other Income	114,126	218,320
Total Non-Operating (Expense)	<u>(118,275)</u>	<u>(74,650)</u>
Transfers in	-	995,000
Change in Net Position Before Extraordinary Item	1,110,557	2,021,427
Net Position, Beginning of Year	<u>20,467,035</u>	<u>18,445,608</u>
Net Position, End of Year	<u>\$ 21,577,592</u>	<u>\$ 20,467,035</u>

## Financial Analysis

The Utility's total assets increased by \$206,543 to \$35,784,433 in 2022. There was a \$839,934 increase in current assets and a \$633,391 decrease in capital assets in 2022. Within the current assets, cash and cash equivalents increased by \$701,146, and accounts receivable increased by \$151,482. The remaining changes to current assets netted to a decrease of \$12,694 and included changes to materials and supplies inventory, lease receivables, unbilled usage, and prepaid expenses. The decrease in net capital assets included \$1,212,723 in depreciation expense offset by net asset additions of \$579,332 in 2022.

The Utility's total liabilities decreased by \$1,210,282 from 2021 to 2022. There was a decrease of \$269,834 in bonds payable and a decrease of \$636,000 in notes payable. This was the result of paying the scheduled 2022 principal payments for each of the debt instruments. There was a decrease in net pension liability of \$410,418 in 2022. This is due to reporting compliance with GASB Statement No. 68, "Accounting and Financial Reporting for Pensions". There was an increase of \$99,437 in accounts payable for 2022. Most of the increase in accounts payable was related to the amount payable to the City of Spencer for Sewer and Garbage services, which are billed by SMU. The remaining increase in total liabilities was \$6,533 for changes in accrued liabilities, unearned revenue, and OPEB liability.

The Utility's net position increased by \$1,110,557 as a result of positive operations for 2022.

The Utility's gross operating revenues were slightly lower than the previous year, with a total of \$3,873,456 in 2022 compared to \$3,901,617 for 2021. Water sales were lower in 2022 by approximately 6.9 million gallons or 2%, while outside water sales increased in 2022 by approximately 4.6 million gallons or about 8%. Water sales rates and customer charges remained unchanged for both 2021 and 2022. Total Water Sales revenue was down \$14,313 from the previous year, which is less than 1%. Other operating revenue consisting of service permits, frozen meter fees, reconnect fees and miscellaneous revenue was \$17,759 in 2022 compared to \$31,607 in 2021.

Operating expenses decreased by \$155,916 in 2022 compared to 2021. System operation & maintenance expense decreased by \$90,259 or about 7%. This consisted of a \$179,624 decrease in Distribution expense, offset by a \$89,365 increase in Water Treatment expense. Much of the reduced Distribution expense was related to the cost of demolition on the south water tower which was completed in 2021. The increase in Treatment expense correlated with increased costs for chemicals, water testing costs and purchased power to operate the water plant. Depreciation & Amortization expense decreased by \$66,308 or about 5% under the 2021 level. Customer service & administration expenses increased by \$651, which is less than 1% from 2021 to 2022.

Total net operating income generated in 2022 was \$1,228,832 compared to \$1,101,077 in 2021.

Non-Operating income (expense) for 2022 resulted in an expense of \$118,275 as compared to an expense of \$74,650 in 2021. Interest expense dropped by \$35,216, from \$311,109 in 2021 to \$275,893 in 2022. Other non-operating income was lower by \$78,841 in 2022. Of this amount, Contributions in Aid of Construction decreased by \$114,763 in 2022 as compared to 2021. The larger amount in 2021 was due to new water main construction for two construction projects. Interest income increased by \$25,353 in 2022 as a result of more favorable interest rates received on deposits. Lease Revenue dropped from \$75,294 in 2021 to \$69,598 in 2022. There was also a \$23,265 gain on sale of assets in 2022 vs. a gain of \$7,000 in 2021.

The Water Utility had a net profit of \$1,110,557 for the year ended December 31, 2022 compared to a net profit of \$2,021,427 in 2021. The 2021 amount included a \$995,000 transfer from the Electric Utility to the Water Utility.

## Economic Factors

During the year ended December 31, 2022, the Utility experienced a net profit of \$1,110,557. A rate adjustment effective with consumption beginning August 1, 2020, in addition to an increase in customer charge effective August 1, 2020, have allowed the Utility sufficient coverage of operational and non-operational expenses. Management will continue to monitor the operations of the Utility in addition to projected capital expenditures and propose rate adjustments accordingly.

## Communications Utility

The Utility's operating revenue increased by \$229,224 or about 3% in 2022 to \$7,303,216 compared to \$7,073,992 in 2021. There was an increase in data services revenue of \$465,421, which was offset by decreases of \$93,349 in cable television revenue, \$138,784 in telephone system revenue, and \$4,064 in miscellaneous revenue.

The Utility's net position increased by \$332,896 to \$14,661,982 for the year ended December 31, 2022 as a result of operations for the year.

## Condensed Financial Information

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning:

### Condensed Statements of Net Position

	2022	2021
Current Assets	\$ 4,006,294	\$ 2,496,867
Noncurrent Assets	152,711	149,699
Capital assets, net of depreciation	11,798,281	13,307,133
Total Assets	<u>15,957,286</u>	<u>15,953,699</u>
Deferred Outflows of Resources	<u>287,182</u>	<u>379,240</u>
Current Liabilities	593,845	689,002
Noncurrent Liabilities	78,244	1,204,372
Total Liabilities	<u>672,089</u>	<u>1,893,374</u>
Deferred Inflows of Resources	<u>910,397</u>	<u>110,479</u>
Net Investment in Capital Assets	11,798,281	13,307,133
Restricted	-	-
Unrestricted	2,863,701	1,021,953
Total Net Position	<u>\$ 14,661,982</u>	<u>\$ 14,329,086</u>

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2022	2021
Cable Television Revenue	\$ 2,402,303	\$ 2,495,652
Telephone Revenue	1,038,852	1,177,636
Data Revenue	3,808,279	3,342,858
Miscellaneous Revenue	53,782	57,846
Total Operating Revenue	<u>7,303,216</u>	<u>7,073,992</u>
Plant Specific and Programming	4,030,555	4,013,582
Depreciation & Amortization	1,738,165	1,681,028
Uncollectible Accounts Expense	35,509	13,361
Customer Service & Administration	1,139,403	1,100,494
Total Operating Expenses	<u>6,943,632</u>	<u>6,808,465</u>
Operating Income (Loss)	359,584	265,527
Interest Income	36,494	5,501
Interest Expense	-	(24,169)
Other Income (Expense)	(63,182)	65,628
Total Non-Operating Income (Expense)	<u>(26,688)</u>	<u>46,960</u>
Change in Net Position	332,896	312,487
Net Position, Beginning of Year	<u>14,329,086</u>	<u>14,016,599</u>
Net Position, End of Year	<u>\$ 14,661,982</u>	<u>\$ 14,329,086</u>

**Financial Analysis**

The Utility's total assets increased by \$3,587 in 2022. Cash and cash equivalents increased by \$1,509,427 in 2022, due to the results of operations. Net capital assets decreased by \$1,508,852. The decrease reflected the depreciation expense for the year of \$1,738,165 exceeding the net asset additions of \$229,313 in 2022. There was a decrease in materials and supplies inventory of \$110,316 in 2022. This decrease was related to less need for materials on hand after completion of the city-wide fiber to the home project. There was an increase of \$51,433 in prepaid expense in 2022 due to the timing and duration of various support contracts. There was an increase in long-term receivable in the amount of \$3,012. This stemmed from operations and distributions received during 2022 from the Northern Iowa Communications Partners, LLC (NICP). Spencer Municipal Utilities maintains a 28E agreement with NICP which is related to a shared switch for routing certain telecommunications traffic. Other decreases in assets included accounts receivable by \$17,837, and unbilled usage by \$2,993.

The Utility's total liabilities decreased by \$1,221,285 in 2022. Current liabilities decreased \$95,157. This reflected decreases in accounts payable of \$80,371 and customer deposits of \$21,169, offset by an increase in accrued liabilities of \$6,383. Noncurrent liabilities decreased \$1,126,128 in 2022. Of this amount, net pension liability decreased \$1,123,828, unearned revenue decreased by \$2,400 and OPEB liabilities increased by \$100. The change in net pension liability is due to reporting compliance with GASB Statement No. 68, "Accounting and Financial Reporting for Pensions". The change in the total OPEB liability is due to reporting compliance with GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions".

The Utility's total net position increased by \$332,896 as a result of operations for 2022.

The Utility's gross operating revenue had a 3% increase of \$229,224 in 2022 as compared to 2021. Cable system revenue decreased \$93,349 in 2022 or about 4% under 2021 levels. This was due to a drop in customer subscriber counts in 2022 as well a drop in advertising sales in 2022. There was a rate increase for

cable tv services in February of 2022. Telephone system revenue decreased \$138,784 in 2022, or about 12%, compared to 2021 revenue. The decrease was attributable to a decrease in customers as well as a decreases in special access and switched access revenues realized in 2022. Data services revenue increased by \$465,421 in 2022 or about 14% over the 2021 revenue. The revenue increase stems from an increase in subscribers. There was also a rate change for data services in February of 2022. Miscellaneous operating revenue decreased by \$4,064 in 2022.

Total operating expenses increased by \$135,167 in 2022 as compared to 2021. Plant specific and programming costs increased by \$16,973 in 2022 as compared to 2021. This was mainly due to a \$82,519 increase in network operations cost, and a \$123,357 increase in customer premise costs. The increase in customer premise costs relate mostly to the conversion of RF TV to IPTV. This conversion continued to be a high priority in 2022 and substantial staff time and materials were needed to do the installs in customer homes. These increases were offset by a \$168,180 decrease in pension expense and a \$20,723 net decrease in other plant specific costs. Depreciation and amortization expense increased in 2022 by \$57,137. Uncollectable accounts expense increased by \$22,148, to \$35,509 in 2022 from \$13,361 in 2021. The 2022 total represented less than 1% of billed charges for the year. Customer service & administration expenses increased by \$38,909 or about 4% in 2022 compared to 2021.

Total operating income (loss) for 2022 was income of \$359,584 compared to income of \$265,527 in 2021.

Non-operating income (expense) resulted in an expense of \$26,688 in 2022 compared to income of \$46,960 in 2021. Interest income was up \$30,993 from 5,501 in 2021 to \$36,494 in 2022. Net income from Joint Ventures reflected an income of \$25,099 in 2022 compared to an income of \$19,493 in 2021. These amounts were attributable to operating income from Northern Iowa Communications Partners (NICP). The Utility, as a participating Member of NICP, receives 10% of its net income/loss. Other non-operating income (expense) included a decrease of \$24,169 in interest expense in 2022 compared to 2021. This was due to the payoff of debt in July of 2021. Loss on asset retirements was \$110,417 in 2022, compared to a gain of 21,614 in 2021. Leased facility income decreased from \$24,521 in 2021 to \$22,136 in 2022.

The Utility had a net income of \$332,896 for the year ended December 31, 2022, compared to a net income of \$312,487 for the year ended December 31, 2021.

### **Economic Factors**

The Utility has continued to experience a slight decrease in its Cable TV subscriber base and residential telephone line customers. The rate increases in 2021 and 2022 to Cable TV were implemented to cover annual programming increases charged to the Utility for providing cable service. Effective February 1, 2022, the utility adjusted their internet levels of service and the related pricing resulting in an overall increase in revenue of approximately 15%. During 2022, the Utility completed the fiber to the premise conversion and all customers are served by fiber.

During 2022, the Utility finished converting all cable television customers to the IPTV platform. This allows for the retirement of the original cable television head end that was placed in service in 2000. The Utility now purchases head end services on a per subscriber basis.

### **CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT**

This financial report is designed to present our citizens, customers, and creditors with a general overview of SMU's finances and operating activities. If you have any questions or require additional information please contact the Finance Manager, 520 2<sup>nd</sup> Avenue East, Suite 1, Spencer, Iowa 51301.

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2022**

	Electric Utility	Water Utility	Communications Utility	Total
<b>Assets</b>				
Current assets:				
Cash and Cash Equivalents				
Unrestricted	\$ 12,000,039	2,403,494	3,407,207	17,810,740
Restricted	701,151	1,784,515	26,643	2,512,309
Board Designated	7,900,000	-	-	7,900,000
Accounts Receivable (Net of Allowance for Doubtful Accounts)	1,430,680	803,817	47,768	2,282,265
Accrued Interest Receivable	46,751	-	-	46,751
Unbilled Usage	463,428	94,904	18,393	576,725
Lease Receivables	251,400	93,168	-	344,568
Materials and Supplies Inventory	610,349	119,017	267,713	997,079
Fuel Inventory	488,468	2,718	-	491,186
Notes Receivable - Short Term	150,791	-	-	150,791
Prepayments and Other	321,993	62,171	238,570	622,734
Total current assets	<u>24,365,050</u>	<u>5,363,804</u>	<u>4,006,294</u>	<u>33,735,148</u>
Capital assets:				
Land	148,872	2,311,614	10,342	2,470,828
Construction in Progress	943,085	1,688	80,126	1,024,899
Plant in Service	88,828,888	42,540,400	28,228,879	159,598,167
Accumulated Depreciation	<u>(47,634,865)</u>	<u>(14,433,073)</u>	<u>(16,521,066)</u>	<u>(78,589,004)</u>
Total capital assets	<u>42,285,980</u>	<u>30,420,629</u>	<u>11,798,281</u>	<u>84,504,890</u>
Noncurrent assets:				
Notes Receivable - Other	745,601	-	-	745,601
Long-Term Receivables	<u>-</u>	<u>-</u>	<u>152,711</u>	<u>152,711</u>
Total noncurrent assets	<u>745,601</u>	<u>-</u>	<u>152,711</u>	<u>898,312</u>
<b>Total assets</b>	<u>67,396,631</u>	<u>35,784,433</u>	<u>15,957,286</u>	<u>119,138,350</u>
<b>Deferred outflows of resources</b>				
Pension related deferred outflows	254,654	100,211	277,593	632,458
OPEB related deferred outflows	<u>96,771</u>	<u>3,990</u>	<u>9,589</u>	<u>110,350</u>
Total deferred outflows of resources	<u>351,425</u>	<u>104,201</u>	<u>287,182</u>	<u>742,808</u>

See notes to financial statements.



**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**STATEMENTS OF NET POSITION - continued**  
**DECEMBER 31, 2022**

	Electric Utility	Water Utility	Communications Utility	Total
<b>Liabilities</b>				
Current liabilities:				
Accounts Payable	1,163,836	873,582	300,322	2,337,740
Payroll & Sales Tax Payable	105,536	34,162	75,503	215,201
Accrued Payroll and Compensated Absences	231,462	65,228	188,977	485,667
Accrued Interest Payable	-	28,338	-	28,338
Consumer Deposits	155,355	-	26,643	181,998
Current Portion of Unearned Revenue	8,990	-	2,400	11,390
Current Maturities of Long-Term Debt	-	924,000	-	924,000
Total current liabilities	<u>1,665,179</u>	<u>1,925,310</u>	<u>593,845</u>	<u>4,184,334</u>
Noncurrent liabilities:				
Unearned Revenue	-	-	13,200	13,200
Notes Payable	-	10,363,000	-	10,363,000
Bonds Payable	-	2,480,449	-	2,480,449
Less - Current Maturities	-	(924,000)	-	(924,000)
Net Pension Liability	7,183	18,723	29,606	55,512
Total OPEB Liability	<u>244,803</u>	<u>24,726</u>	<u>35,438</u>	<u>304,967</u>
Total noncurrent liabilities	<u>251,986</u>	<u>11,962,898</u>	<u>78,244</u>	<u>12,293,128</u>
<b>Total liabilities</b>	<u>1,917,165</u>	<u>13,888,208</u>	<u>672,089</u>	<u>16,477,462</u>
<b>Deferred inflows of resources</b>				
Pension Related Deferred Inflows	930,762	323,719	883,096	2,137,577
Lease Related Deferred Inflows	246,218	90,072	-	336,290
OPEB Related Deferred Inflows	<u>31,737</u>	<u>9,043</u>	<u>27,301</u>	<u>68,081</u>
Total deferred inflows	<u>1,208,717</u>	<u>422,834</u>	<u>910,397</u>	<u>2,541,948</u>
<b>Net position</b>				
Net Investment in Capital Assets	42,285,980	17,577,180	11,798,281	71,661,441
Restricted	545,796	1,784,515	-	2,330,311
Unrestricted	<u>21,790,398</u>	<u>2,215,897</u>	<u>2,863,701</u>	<u>26,869,996</u>
Total net position	<u>\$ 64,622,174</u>	<u>21,577,592</u>	<u>14,661,982</u>	<u>100,861,748</u>

See notes to financial statements.

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**STATEMENTS OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Electric Utility	Water Utility	Communications Utility	Total
Operating revenues:				
Residential	\$ 5,087,847	2,761,848	-	7,849,695
Commercial	4,914,696	1,093,849	-	6,008,545
Public Authorities	1,300,765	-	-	1,300,765
Sales for Resale	3,112,693	-	-	3,112,693
Energy Cost Adjustment Revenue	2,303,645	-	-	2,303,645
Cable Service Revenue	-	-	2,402,303	2,402,303
Telephone Service Revenue	-	-	1,038,852	1,038,852
Data Services Revenue	-	-	3,808,279	3,808,279
Penalties	29,950	-	-	29,950
Service Permits	-	13,473	-	13,473
SPP Attachment H Revenue	900,031	-	-	900,031
Renewable Energy Credit Sales	211,813	-	-	211,813
Miscellaneous	2,059,077	4,286	53,782	2,117,145
Total operating revenues	<u>19,920,517</u>	<u>3,873,456</u>	<u>7,303,216</u>	<u>31,097,189</u>
Operating expenses:				
Generation and Transmission				
Neal #4 Fuel and Generation	775,620	-	-	775,620
Walter Scott #4 Fuel and Generation	1,112,240	-	-	1,112,240
Purchase Power	8,108,959	-	-	8,108,959
Other	531,626	-	-	531,626
Treatment	-	705,595	-	705,595
Distribution	1,432,082	460,054	-	1,892,136
Plant Specific and Programming	-	-	4,030,555	4,030,555
Depreciation and Amortization	2,817,115	1,212,723	1,738,165	5,768,003
Customer Operations	390,235	46,437	635,718	1,072,390
Uncollectible Accounts Expense	6,412	368	35,509	42,289
General and Administrative	851,088	219,447	503,685	1,574,220
Resource Conservation	102,019	-	-	102,019
Total operating expenses	<u>16,127,396</u>	<u>2,644,624</u>	<u>6,943,632</u>	<u>25,715,652</u>
Income from operations	<u>\$ 3,793,121</u>	<u>1,228,832</u>	<u>359,584</u>	<u>5,381,537</u>

See Notes to Financial Statements

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**STATEMENTS OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET POSITION - continued**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Electric Utility	Water Utility	Communications Utility	Total
Nonoperating income (expense):				
Interest Income on Investments	\$ 217,402	43,492	36,494	297,388
Contributions from Developers	13,434	21,263	-	34,697
Net Income from Joint Ventures	-	-	25,099	25,099
Economic Development Expense	(284,981)	-	-	(284,981)
Lease Revenue	261,210	69,598	22,136	352,944
Interest Expense	-	(275,893)	-	(275,893)
Grant Revenue	300,000	-	-	300,000
Gain/(Loss) on Plant Retirement	160,624	23,265	(110,417)	73,472
Payment in Lieu of Property Taxes	(625,565)	-	-	(625,565)
Net nonoperating income (expense)	<u>42,124</u>	<u>(118,275)</u>	<u>(26,688)</u>	<u>(102,839)</u>
Change in net position	3,835,245	1,110,557	332,896	5,278,698
Net position, beginning	<u>60,786,929</u>	<u>20,467,035</u>	<u>14,329,086</u>	<u>95,583,050</u>
Net position, ending	<u>\$ 64,622,174</u>	<u>\$ 21,577,592</u>	<u>\$ 14,661,982</u>	<u>\$ 100,861,748</u>

See Notes to Financial Statements

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Electric Utility	Water Utility	Communications Utility	Total
Cash flows from operating activities:				
Cash receipts from customers	\$ 17,432,355	3,714,664	7,264,971	28,411,990
Cash payments to suppliers	(9,448,027)	(678,920)	(3,388,872)	(13,515,819)
Cash payments to employees	(2,175,377)	(729,933)	(2,027,946)	(4,933,256)
Payments received from leasing	261,210	69,598	22,136	352,944
Net cash provided by operating activities	6,070,161	2,375,409	1,870,289	10,315,859
Cash flows from noncapital financing activities:				
Cash payments for economic development and in lieu of property taxes	(910,546)	-	-	(910,546)
Net cash used by noncapital financing activities	(910,546)	-	-	(910,546)
Cash flows from capital and related financing activities:				
Acquisition & construction of assets	(1,949,614)	(745,757)	(339,730)	(3,035,101)
Cash receipts from developers	13,434	21,263	-	34,697
Revenue bond principal repayment	-	(905,834)	-	(905,834)
Proceeds from sale of capital assets	325,412	190,410	-	515,822
Interest Paid	-	(277,837)	-	(277,837)
Net cash used by capital and related financing activities	(1,610,768)	(1,717,755)	(339,730)	(3,668,253)
Cash flows from investing activities:				
Payments received on revolving loan funds	114,607	-	-	114,607
Issuances of revolving loan funds	(360,000)	-	-	(360,000)
Cash receipts from grant revenue	300,000	-	-	300,000
Payments received on long-term receivables	-	-	22,087	22,087
Interest received from investments	170,651	43,492	36,494	250,637
Net cash provided by investing activities	225,258	43,492	58,581	327,331
Net increase (decrease) in cash and cash equivalents	3,774,105	701,146	1,589,140	6,064,391
Cash and cash equivalents-beginning of year	16,827,085	3,486,863	1,844,710	22,158,658
Cash and cash equivalents-end of year	\$ 20,601,190	4,188,009	3,433,850	28,223,049

See Notes to Financial Statements

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**STATEMENTS OF CASH FLOWS - continued**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Electric Utility	Water Utility	Communications Utility	Total
Reconciliation:				
Cash and Cash Equivalents				
Unrestricted	12,000,039	2,403,494	3,407,207	17,810,740
Restricted	701,151	1,784,515	26,643	2,512,309
Board Designated	7,900,000	-	-	7,900,000
	<u>\$ 20,601,190</u>	<u>4,188,009</u>	<u>3,433,850</u>	<u>28,223,049</u>
Reconciliation of operating income to net cash provided by operating activities:				
Income from operations	3,793,121	1,228,832	359,584	5,381,537
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and Amorization	2,817,115	1,212,723	1,738,165	5,768,003
Lease Revenue	261,210	69,598	22,136	352,944
Change in accounts receivable	(265,642)	(151,482)	17,837	(399,287)
Change in unbilled usage	(56,513)	(2,346)	2,993	(55,866)
Change in lease receivables	(251,400)	(93,168)	-	(344,568)
Change in materials and supplies inventory	20,799	9,002	110,316	140,117
Change in fuel inventory	(41,686)	526	-	(41,160)
Change in prepayments	(70,153)	(12,585)	(51,433)	(134,171)
Change in deferred outflows	91,936	31,815	92,058	215,809
Change in accounts payable	(180,324)	99,437	(80,371)	(161,258)
Change in accrued payroll and compensated absences	11,300	9,772	6,383	27,455
Change in consumer deposits	23,417	-	(21,169)	2,248
Change in unearned revenue	3,670	(1,500)	(2,400)	(230)
Change in OPEB liability	(27,017)	(515)	100	(27,432)
Change in net pension liability	(1,220,235)	(410,418)	(1,123,828)	(2,754,481)
Change in deferred inflows	1,160,563	385,718	799,918	2,346,199
Net cash provided by operating activities	<u>\$ 6,070,161</u>	<u>2,375,409</u>	<u>1,870,289</u>	<u>10,315,859</u>

See Notes to Financial Statements

**SPENCER MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF SPENCER  
NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2022**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Spencer Municipal Utilities (SMU) is engaged in the activities providing electric, water and communications utilities services. SMU operates independent of the City of Spencer and is governed by a five-member Board of Trustees, appointed by the Mayor with the approval of the City Council. The Communications Utility was formed to engage in the development and operation of a broadband communications system and the marketing of related services such as cable, television, telephone, high-speed data communications and other communication products. SMU's rates are set by its governing board.

The Utility's financial statements are prepared in conformity with U.S. generally accepted accounting principles applicable to proprietary funds of governmental entities as prescribed by the Governmental Accounting Standards Board.

**Reporting Entity**

SMU follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board.

For financial reporting purposes, SMU has included all funds, organizations, agencies, boards, commissions and authorities. SMU has also considered all other potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with SMU are such that exclusion would cause SMU's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of SMU to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on SMU. SMU has no component units which meet the Governmental Accounting Standards Board criteria.

The Utility is not presented as a component unit of the City of Spencer's financial statements. The Utility is a legally separate entity from the City, but it is financially accountable to the City.

**Basis of Presentation**

The accounts of SMU are organized on the basis of proprietary enterprise funds, each of which is considered to be a separate accounting entity and each reported in a separate column in the financial statements. The operations of each fund are accounted by providing a separate set self-balancing account, which comprise of its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses, and debt service of the designated activity. SMU reports the following major enterprise funds:

- Electric Fund
- Water Fund
- Communications Fund

**SPENCER MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF SPENCER  
NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2022**

**Measurement Focus and Basis of Accounting**

Measurement focus refers to what is measured and basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

SMU's Proprietary Fund financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. As such, the fund measurement objective is determination of operating income, changes in net positions, financial position, and cash flows. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the related obligation is incurred. The applicable generally accepted accounting principles are those similar to business in the private sector.

SMU distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of SMU are charges to customers for sales and services. Operating expenses include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is SMU's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Budgetary Information**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. During the year ended December 31, 2022, disbursements did not exceed the amounts budgeted.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results could differ from those estimates.

**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position**

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents – The various funds of SMU combine their cash and invested cash (nonnegotiable certificates of deposits) funds into several shared bank accounts at various financial institutions. Interest earned on invested cash is divided among the funds.

**SPENCER MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF SPENCER  
NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2022**

For the purposes of the statement of cash flows, invested cash and all short-term investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months. Investments consist of certificates of deposits, which are recorded at amortized costs.

Accounts Receivable and Allowance for Doubtful Accounts – Accounts receivable are stated at the amount SMU expects to collect from outstanding balances. SMU provides for probable uncollectible amounts through a charge to earnings and a credit to valuation allowance based on an assessment of the current status of individual accounts. Balances that are still outstanding after SMU has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of December 31, 2022, the allowance for uncollectible accounts was \$24,000.

Inventories – Inventories are valued at the lower of cost or market. The average cost method is used for determining the cost of materials and supplies inventory. Inventories are recorded as an expenditure or, if applicable, capitalized when consumed.

Capital Assets – Capital assets are stated at original cost when first devoted to public service. Currently, such costs include labor-related expenditures, such as payroll taxes, pensions, and other fringe benefits and administrative costs for labor related to the construction of new facilities.

Under a joint ownership agreement with other utilities, the Electric Utility has a 1.215% undivided interest in a 654 MW electric generation station known as George Neal Generating Station Unit No. 4. The Electric Utility's 1.215% ownership interest in this plant represents a total investment of \$8,769,403 included in utility plant in service with \$5,515,272 included in accumulated depreciation. The Electric Utility also had a 3.78% undivided interest in transmission facilities known as Lehigh-Webster Transmissions. On December 31, 2022, the Electric Utility sold 1.97% of its 3.78% interest in this facility. The remaining 1.81% ownership interest in this plant represents an investment of \$342,210 with \$230,440 of accumulated depreciation. Operating costs associated with these plants and depreciation are reflected in the statement of revenues, expenses and changes in net position.

Under a joint ownership agreement with other utilities, the Electric Utility has a 1.14% undivided interest in a 790 MW electric generation station known as Walter Scott, Jr. Energy Center Unit 4, which was placed in service in 2007. The Electric Utility's 1.14% ownership interest in this plant represents a total investment of \$16,531,390 included in utility plant in service with \$6,163,753 included in accumulated depreciation. Operating costs associated with this plant and depreciation are reflected in the statement of revenue, expenses, and changes in net position.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation is provided on a straight-line basis for all assets other than the distribution system. Distribution system assets are depreciated using a group method of depreciation. Current depreciation expense is approximately 3.19% of the original cost of depreciable Electric plant in



**SPENCER MUNICIPAL UTILITIES  
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service, 2.74% of the original cost of depreciable Water plant in service, and 5.52% of the original cost of depreciable Communications plant in service.

The estimated useful lives used to depreciate assets by class are as follows:

Infrastructure	10-40 years
Building and improvements	20 years
Equipment	5-15 years

Leases – The Utility is a lessor for various assets and recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of a lease, the Utility initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the Utility determines the discount rate it uses to discount the expected lease receipts to present value, lease term and lease receipts. The Utility uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The Utility monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Pension related deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period. OPEB related deferred outflows of resources consist of changes of assumptions that have not been recognized in the OPEB expense.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Pension related deferred inflows of resources in the Statements of Net Position consist of the unamortized portion of the net difference between projected and actual earnings and on pension plan investments. OPEB related deferred inflows of resources consist of the differences between expected and actual experience that have not been recognized.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the net

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position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Net Position**

Net position is reported in the following categories:

- *Net Investment in Capital Assets* – This category consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances for bonds, notes, and other borrowings attributable to the acquisition, construction, or improvement of those assets and increased by unspent debt when there are limitations imposed on their use through external restrictions imposed by credits, grantors, or laws or regulations of other governments.
- *Restricted* – This category results when constraints are placed on net position by external groups such as creditors, grantors, or laws or regulations of other governments or law through constitutional provisions or enabling legislation.
- *Unrestricted* – This category consists of all other net position not meeting the definition of “restricted” or “net investment in capital assets.”

SMU's policy is to first apply restricted resources when expense is incurred for purposes for which both restricted and unrestricted net position is available.

Amounts shown as restricted net position and the purpose of the restriction are as follows:

- Restricted for Revenue Bond Sinking and Reserve Funds \$1,784,515.
- Restricted for REGLG Revolving Fund \$543,607.
- Other miscellaneous cash restrictions \$2,189.

**Revenues and Unbilled Usage**

Revenues are based on billing rates, which are applied to customers' consumption of electricity, water, and communications services. SMU records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2022, totaled \$463,428 for Electric, \$94,904 for Water, and \$18,393 for Communications.

**NOTE 2 – CASH AND INVESTMENTS**

SMU's deposits in banks at December 31, 2022 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

SMU is authorized by statute and Board of Trustees' approval to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions.

Interest rate risk – SMU's investment policy limits the investment of operating funds (funds

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expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utilities.

SMU considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows. Investments consist of certificates of deposits, which are recorded at cost and Iowa Public Agency Investment Trust (IPAIT) investments. These investments are valued at amortized costs of \$5,542,851 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on the withdrawals for the IPAIT investment. The Utilities investment in IPAIT is unrated.

Reconciliation of SMU's cash and cash equivalents, current investments and noncurrent investments is as follows:

	<u>2022</u>
Cash and cash equivalents	
Board designated	\$ 7,900,000
Restricted	2,512,309
Unrestricted	<u>17,810,740</u>
Total cash and cash equivalents	<u><u>\$ 28,233,049</u></u>

**NOTE 3 – BOARD DESIGNATED FUNDS**

The Board of Trustees of SMU has designated certain funds to be placed in a contingency reserve account. These funds, which are from unrestricted net position, are being designated for contingencies such as a natural disaster, and cannot be expended without Board approval. The total cash and cash equivalents designated as the replacement construction reserve at December 31, 2022 was \$7,900,000.

**NOTE 4 – CAPITAL ASSETS**

Capital assets categories and changes in each cost category and depreciation for the year ended December 31, 2022 were as follows:

<b>Total Utility</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,470,828	-	-	2,470,828
Construction in progress	644,691	2,075,853	1,695,645	1,024,899
Total capital assets not being depreciated	<u>3,115,519</u>	<u>2,075,853</u>	<u>1,695,645</u>	<u>3,495,727</u>
Capital assets being depreciated:				
Buildings and improvements	32,247,284	444,924	668,061	32,024,147
Equipment	8,964,605	149,260	938,680	8,175,185
Infrastructure	120,483,924	2,481,116	3,566,205	119,398,835
Total capital assets being depreciated	<u>161,695,813</u>	<u>3,075,300</u>	<u>5,172,946</u>	<u>159,598,167</u>

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Less accumulated depreciation:	77,142,328	5,768,003	4,321,327	78,589,004
Net capital assets being depreciated	<u>84,553,485</u>			<u>81,009,163</u>
Total capital assets - net	<u><u>\$87,669,004</u></u>			<u><u>84,504,890</u></u>

Capital asset categories and changes in each category and depreciation for the year ended December 31, 2022 for each major fund are as follows:

<b>Electric</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 148,872	-	-	148,872
Construction in progress	600,011	1,191,417	848,343	943,085
Total capital assets not being depreciated	<u>748,883</u>	<u>1,191,417</u>	<u>848,343</u>	<u>1,091,957</u>
Capital assets being depreciated:				
Buildings and improvements	1,262,960	-	-	1,262,960
Equipment	6,427,377	119,808	244,386	6,302,799
Infrastructure	80,499,150	1,488,214	724,235	81,263,129
Total capital assets being depreciated	<u>88,189,487</u>	<u>1,608,022</u>	<u>968,621</u>	<u>88,828,888</u>
Less accumulated depreciation:	<u>45,630,519</u>	<u>2,817,115</u>	<u>812,769</u>	<u>47,634,865</u>
Net capital assets being depreciated	<u>42,558,968</u>			<u>41,194,023</u>
Electric utility, net capital assets	<u><u>\$43,307,851</u></u>			<u><u>42,285,980</u></u>
<b>Water</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,311,614	-	-	2,311,614
Construction in progress	15,990	728,425	742,727	1,688
Total capital assets not being depreciated	<u>2,327,604</u>	<u>728,425</u>	<u>742,727</u>	<u>2,313,302</u>
Capital assets being depreciated:				
Building and improvements	25,184,847	411,620	195,617	25,400,850
Equipment	469,243	21,306	36,034	454,515
Infrastructure	16,357,184	327,852	-	16,685,035
Total capital assets being depreciated	<u>42,011,274</u>	<u>760,778</u>	<u>231,651</u>	<u>42,540,400</u>
Less accumulated depreciation:	<u>13,284,858</u>	<u>1,212,723</u>	<u>64,508</u>	<u>14,433,073</u>
Net capital assets being depreciated	<u>28,726,416</u>			<u>28,107,327</u>
Water utility, net capital assets	<u><u>\$31,054,020</u></u>			<u><u>30,420,629</u></u>

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<b>Communication</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 10,342	-	-	10,342
Construction in progress	28,690	156,011	104,575	80,126
Total capital assets not being depreciated	39,032	156,011	104,575	90,468
Capital assets being depreciated:				
Buildings and improvements	5,799,477	33,304	472,444	5,360,337
Equipment	2,067,985	8,416	658,530	1,417,871
Infrastructure	23,627,590	253,430	2,430,349	21,450,671
Total capital assets being depreciated	31,495,052	294,880	3,561,053	28,228,879
Less accumulated depreciation:	18,226,951	1,738,165	3,444,050	16,521,066
Net capital assets being depreciated	13,268,101			11,707,813
Communications utility, net capital assets	<u>\$13,307,133</u>			<u>11,798,281</u>

**Reconciliation of Net Investment in Capital Assets:**

	<b>Electric</b>	<b>Water</b>	<b>Communications</b>	<b>Total</b>
Capital Assets (Net of Accumulated)	\$42,285,980	30,420,629	11,798,281	84,504,890
Less: Bonds/Notes Payable	-	12,843,449	-	12,843,449
	<u>\$42,285,980</u>	<u>17,577,180</u>	<u>11,798,281</u>	<u>71,661,441</u>

**NOTE 5 – JOINT LEASES**

The Board of Trustees has adopted and approved an interfund resolution under Iowa Code Chapter 28E between the Electric Utility and the Communication Utility to finance and install a communications distribution system for the use and support of the electronic functions of the electric utility system. This communication distribution system is the sole property of the Electric Utility. Through the joint use agreement, the Communications Utility is granted the right to use the fiber and coaxial networks, HDT and voice ports and the network operations control building in varying percentages as specified in the agreement. Portions of this system and the office facilities maintained by the Electric utility are leased under a thirty-year operating lease, requiring annual payments.

For the year ended December 31, 2022 the lease payments totaled \$58,072. The future minimum lease payments are as follows:

<b>Year ending December 31,</b>	
2023	\$ 58,072
2024	58,072
2025	58,072

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2026	58,072
2027	58,072
2028-2032	290,360
2033-2037	290,360
2038-2042	290,360
2043-2047	290,360
2048-2051	174,216
	\$ 1,626,016

The Electric Utility also leases bandwidth, property, and building space to the Water and Communication Utilities on a year-to-year basis. The expense from such leases is classified as operating expense and totaled \$720 for the Water Utility and \$6,502 for the Communication Utility for December 31, 2022.

**NOTE 6– TRANSFER IN LIEU OF PROPERTY TAXES**

By resolution of the Board of Trustees, voluntary transfers in lieu of property taxes are made to the City of Spencer, Iowa. Currently, transfer approximate 5% of gross sales of electricity and water (excluding the energy cost adjustment), less actual property taxes paid (on the George Neal Generating Station Unit No. 4, on the Walter Scott Jr. Unit No. 4 and 121 E 7<sup>th</sup> St) and returned to the City of Spencer, Iowa. Additionally, funds declared to be surplus can be, and have been, transferred to the City.

**NOTE 7– REVOLVING LOAN FUND**

The Utility implemented a revolving loan program that was funded with grant revenue from the USDA Rural Development as well as matching funds. This program currently has five loans outstanding made to local organizations in furthering economic development in the Spencer area. The ending balance of these loans was \$896,392 at December 31, 2022, with interest rates ranging from 0-2.75%. Annual principal and interest requirements to maturity are as follows:

Year Ending December 31,	Revolving Loan Funds	
	Principal	Interest
2023	\$ 150,791	1,796
2024	150,981	1,606
2025	115,175	1,412
2026	115,375	1,212
2027	79,580	1,007
2028-2030	284,490	1,857
	\$ 896,392	8,890

**NOTE 8 – LONG-TERM RECEIVABLES**

During December 2003, the Communications Utility entered into an agreement with Northern Iowa Communications Partners, LLC (NICP), an Iowa limited liability company, pursuant to the provisions of Chapter 28E of the Code of Iowa. Under this agreement, the Utility, along with other members of NICP, agrees to pay for the use of a shared switch for routing certain

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telecommunications traffic at rates adopted by NICP. The Utility will share in profits generated or shortfalls incurred through the 28E agreement due to the method used to determine an annual usage fee paid by NICP to the Utility. An NICP member will be responsible for maintaining the financial records related to the 28E agreement. The amount earned but not received by the Utility as of December 31, 2022 is \$152,711. This amount is recorded as a receivable.

**NOTE 9 – SEWER, STORM WATER, AND SOLID WASTE**

The Electric Utility bills and collects sewer, storm water, and solid waste revenues for the City of Spencer. The resulting receivable and corresponding payable are recorded in the Water Utility. The City of Spencer reimburses SMU for these billing services.

**NOTE 10 – LONG TERM LIABILITIES**

Changes in long-term liabilities for the year ended December 31, 2022 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	\$ 2,710,000	-	265,000	2,445,000	275,000
Note Payable – Direct Borrowing	10,999,000	-	636,000	10,363,000	649,000
Net Pension Liability	2,809,993	-	2,754,481	55,512	-
Total OPEB Liability	332,399	-	27,432	304,967	-
Total	\$16,851,392	-	3,682,913	13,168,479	924,000

Bonds Payable listed on the Statement of Net Position include Unamortized Bond Premiums of \$35,449.

**Bonds Payable**

Water Utility –The Series 2014 revenue bonds require annual principal payments, due May 1, and semiannual interest payments, due May 1 and November 1. Interest rates throughout the term of the bonds range between 1.0% and 3.0%.

The bonds are secured by the future net revenues of the Utility. The bonds payable mature and bears interest as follows:

		Series 2014	
		Principal	Interest
2023	\$	275,000	63,375
2024		280,000	56,850
2025		290,000	49,725
2026		300,000	42,163
2027		310,000	33,962
2028-2030		990,000	45,150
	\$	2,445,000	291,225

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**Notes Payable – Direct Borrowing**

Water Utility - The State Revolving Fund (SRF) awarded \$14,125,000 of revenue capital loan notes to Spencer Municipal Utilities in 2015 at an interest rate of 2.0%. Annual principal payments are due June 1, with semi-annual interest payments due December 1 and June 1.

The SRF note matures and bear interest as follows:

		SRF Note	
		Principal	Interest
2023	\$	649,000	175,674
2024		662,000	164,202
2025		675,000	152,504
2026		688,000	140,578
2027		702,000	128,415
2028-2032		3,727,000	450,879
2033-2038		3,260,000	115,500
		<u>\$ 10,363,000</u>	<u>1,327,752</u>

The bond and note resolutions provide certain covenants relating to the collection, segregation, and distribution of revenues from customers; places certain restrictions on future borrowing and leasing or disposition of assets; and requires that minimum insurance coverage be maintained.

**Restricted Funds**

Outstanding Water Revenue Bonds are collateralized by the revenue of the Utility and the various special funds established by bond covenants. The covenants provide that the revenue of the Utility is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the special funds. Remaining revenues may then be used for any lawful purpose. The covenants also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2022, the Utility is in compliance with all bond covenant requirements.

**Special Funds**

At December 31, 2022 the special funds consisted of the following:

	Cash and Cash Equivalents
Bonds Sinking Fund	\$ 590,255
Bond Reserve Fund	1,194,260
Total	<u>\$ 1,784,515</u>



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Monthly deposits into a bond sinking fund are required to establish the amount necessary to pay the next installments of principal and interest on the Revenue Bonds and Notes Payable. Bond reserve funds for the 2014 Water Revenue Bonds and State Revolving Fund equaled the required balance at December 31, 2022. These funds may be used to pay principal and interest payments when insufficient funds are available in the sinking fund.

**NOTE 11 – RATE MATTERS**

Rates of SMU are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

**NOTE 12 – NUMBER OF METER CONNECTIONS**

The number of meter connections at December 31, 2022 totaled 6,480 Electric meters and 6,240 Water meters.

**NOTE 13 – LEASES**

The Electric Utility leases electrical generation capacity of a jet turbine generator to other utilities or their associations. The Utility's investment in the jet turbine generator is included in capital assets in service and amounted to \$3,726,501, less accumulated depreciation of \$3,253,530 for a net investment of \$472,971 as of December 31, 2022. The rental agreement requires a 1-year notice of termination on the jet turbine generator. The jet turbine lease amount varies based upon the respective year's CPI. SMU has estimated that they will continue with this leasing arrangement through 2023. SMU recognized lease revenue of \$147,367 during the year and an outstanding lease receivable balance of \$154,498.

The Electric Utility entered into a 20-year lease with Iowa Lakes Corridor Development Corporation for the lease of 2800 square feet of the 520 2<sup>nd</sup> Avenue East Building. The lease expires in September 2026 and requires monthly payments of \$2,333. SMU recognized lease revenue of \$25,314 during the year and an outstanding lease receivable balance of \$96,902.

The Electric Utility annual lease income is estimated with an incremental borrowing rate of 4.25% as of December 31, 2022. The annual principal and interest to be received on these lease agreements are as follows:

Year Ended December 31,	Principal	Interest	Total
2023	178,850	7,228	186,078
2024	25,408	2,592	28,000
2025	26,509	1,491	28,000
2026	20,633	367	21,000
Total	251,400	11,678	263,078

The Electric Utility leases various assets on year-to-year basis that totaled \$23,235 for December 31, 2022.

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The Water Utility entered into a 5-year lease with a 5-year term option thereafter with Iowa Wireless Services, LLC. for allowing the placement of equipment on the North and South Water towers. The lease expires in April of 2027 and requires monthly payments of \$2,000. SMU recognized lease revenue of \$21,193 during the year and an outstanding lease receivable balance of \$93,168.

The Water Utility annual lease income is estimated with an incremental borrowing rate of 4.25% as of December 31, 2022. The annual principal and interest to be received on this lease agreements is as follows:

Year Ended December 31,	Principal	Interest	Total
2023	20,435	3,565	24,000
2024	21,321	2,679	24,000
2025	22,245	1,755	24,000
2026	23,209	791	24,000
2027	5,958	42	6,000
Total	93,168	8,832	102,000

The Water Utility also entered into a 1-year lease for the use of 250.8 acres of farmland during the year and recognized lease income of \$48,404.

The Communications Utility entered into a 1-year lease for the use of 118 acres of farmland during the year and recognized lease income of \$22,136.

**NOTE 14 – PENSION AND RETIREMENT BENEFITS**

Plan Description – IPERS membership is mandatory for employees of SMU. Employees of SMU are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

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- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

For the year ended December 31, 2022, pursuant to the required rate, regular members contributed 6.29% of covered payroll and SMU contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Utilities' total contributions to IPERS for the year ended December 31, 2022 were \$340,456.

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions – At December 31, 2022, SMU reported a liability of \$55,512 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. SMU's proportion of the net pension liability was based on SMU's share

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of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2021, SMU's proportion was (0.016080%), which was a decrease of 0.056081% from its proportion measured as of June 30, 2020.

For the year ended December 31, 2022, SMU recognized pension income of \$217,118. SMU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 42,237	42,408
Changes of assumptions	36,310	-
Net difference between projected and actual earnings on IPERS investments	-	2,011,288
Changes in proportion and differences between Utility contributions and the Utility's proportionate share of contributions	49,887	83,881
Utility contributions subsequent to the measurement date	504,024	-
	<u>\$ 632,458</u>	<u>2,137,577</u>

Deferred outflows of resources related to pensions of \$504,024 represents the amount SMU contributed subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31,	Total
2023	\$ (499,559)
2024	(490,914)
2025	(461,879)
2026	(557,255)
2027	464
	<u>\$ (2,009,143)</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.

**SPENCER MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF SPENCER  
NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2022**

Wage growth  
(effective June 30, 2017)

3.25% per annum, based on 2.60% inflation  
and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2020 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	4.43 %
International equity	17.5	6.01
Global smart beta equity	6.0	5.10
Core plus fixed income	26.0	0.29
Public credit	4.0	2.08
Cash	1.0	(0.25)
Private equity	13.0	9.51
Private real assets	7.5	4.63
Private credit	3.0	2.87
	100.0%	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from Utilities will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of SMU's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents SMU's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what SMU's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

**SPENCER MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF SPENCER  
NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2022**

2022	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Utility's proportionate share of the net pension liability	\$ 1,964,750	55,512	(1,544,551)

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Payables to IPERS – At December 31, 2022, SMU reported payables to IPERS of \$65,790 for legally required contributions from employee wages which had not yet been remitted to IPERS.

**Employee Pension Plan**

All full-time employees of SMU who have completed six months of continuous employment and are 18 years of age are eligible to participate in a 457b Pension Plan administered by Security National Bank. SMU contributes 3% of the employees' compensation for all employees contributing at least 3% of their salary.

SMU's contributions to the 457b Pension Plan for 2022 totaled \$107,146. At December 31, 2022, SMU reported no payables related to the employee pension plan.

**NOTE 15 – OTHER POST EMPLOYMENT BENEFITS (OPEB)**

Plan Description – SMU administers a single-employer benefit plan which provides medical benefits for retirees and eligible dependents. Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by SMU and are eligible to participate in the group health plan are eligible to continue the benefits upon retirement. Retirees under age 65 pay the same premium for the benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Retired participants must be age 55 or older at retirement. At December 31, 2022, there were 45 active and 1 retired members covered by the benefit terms.

Total OPEB Liability – SMU's total OPEB liability of \$304,967 was measured as of December 31, 2022 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions – The total OPEB liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement.

Rate of inflation	2.60% per annum.
Rates of salary increase	3.25% per annum, including inflation.
Healthcare cost trend rate	7.50% for 2022, decreasing by 0.50% annually

**SPENCER MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF SPENCER  
NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2022**

Retiree's share of benefit-related cost to an ultimate rate of 4.50%.  
100 percent of projected health insurance premiums for retirees

**Discount Rate** – The discount rate used to measure the total OPEB liability was 4.31%, which reflects the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date.

Mortality rates are from the SOA Pub-2010 Total Dataset Mortality Table fully generational using Scale MP-2019 for retirees and SOA Pub-2010 Continuing Survivor Mortality Table, fully generational using scale MP-2019 for surviving spouses.

The actuarial assumptions used in the December 31, 2022 valuation were based on the results of an actuarial experience study with dates corresponding to those listed above.

**Changes in the Total OPEB Liability**

Total OPEB liability, beginning of year,	\$ 332,399
Changes for the year:	
Service cost	16,164
Interest	7,517
Changes in assumptions	(34,140)
Differences between expected and actual experience	12,129
Benefits payment	(29,102)
Net change	(27,432)
Total OPEB liability, end of year	\$ 304,967

Changes of assumptions reflect a change in the discount rate from at 2.25% from the year ended December 31, 2021 to 4.31% for the year ended December 31, 2022.

*Sensitivity of SMU's Total OPEB Liability to Changes in the Discount Rate* – The following presents the total OPEB liability of SMU, as well as what SMU's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (3.31%) or 1% higher (5.31%) than the current discount rate.

	1% Decrease (3.31%)	Discount Rate (4.31%)	1% Increase (5.31%)
Total OPEB liability	\$ 321,200	304,967	289,476

*Sensitivity of SMU's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates* – The following presents the total OPEB liability of SMU, as well as what SMU's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (7.00%) or 1% higher (9.00%) than the current healthcare cost trend rates.

**SPENCER MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF SPENCER  
NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2022**

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Total OPEB liability	\$ 280,817	304,967	332,489

**OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB**

For the year ended December 31, 2022, the Utility recognized OPEB expense of \$30,481. At December 31, 2022, the Utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 85,856	(31,700)
Changes of Assumptions	24,494	(36,381)
Total	<u>\$ 110,350</u>	<u>(68,081)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expenses as follows:

Year Ending December 31,	Total
2023	\$ 6,800
2024	6,800
2025	6,800
2026	6,804
2027	6,194
Thereafter	8,871
	<u>\$ 42,269</u>

**NOTE 16 – RISK MANAGEMENT**

SMU is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. SMU assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. The Electric Utility, as is in the electric power industry, does not insure its transmission or distribution lines due to the high cost of such coverage.

**NOTE 17 – RELATED PARTIES**

SMU's Electric, Water, and Communications Utilities exchange services in the normal course of business. Additional related party items are included in Note 5 and III-D-22.



**SPENCER MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF SPENCER  
NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2022**

**NOTE 18 – CONTRACTS AND COMMITMENTS**

Beginning in 2020, SMU pledged support to the Iowa Lakes Corridor Development Corporation for five years at a level of \$62,500 per year. This commitment is subject to annual review by the Utilities Board.

Beginning in 2022, SMU signed a three year sponsorship agreement with the Clay County Fair. The agreement is effective through 2025 and the committed support amount is \$85,000 per year.

SMU entered into an agreement with Energy Authority Consulting for a generator replacement analysis service for \$76,000. During the year, SMU paid \$38,000 with the remaining \$38,000 to be paid in 2023. Based on the results of the analysis, SMU may consider a generator project which will require a significant capital investment.

**NOTE 19 – ACCOUNTING CHANGE**

Governmental Accounting Standards Board Statement No. 87, *Leases*, was implemented during the year. The new requirements require the reporting of certain lease assets and liabilities which were previously not reported. The result of these changes had no effect on the beginning net position.

	Lease Receivables	Lease Related Deferred Inflows of Resources
Balances December 31, 2021, as previously reported:	\$ -	-
Change to implement GASB No. 87	534,087	534,087
Balances December 31, 2021, as restated:	<u>\$ 534,087</u>	<u>534,087</u>

**NOTE 20 – SUBSEQUENT EVENTS**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through April 14, 2023, the date the financial statements were available to be issued.

**NOTE 21 – PROSPECTIVE ACCOUNTING PRONOUNCEMENT**

Governmental Accounting Standards Board has issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement will be implemented for the year ended December 31, 2024. The revised requirements of this standard will require reporting certain assets and liabilities for the right-to-use another party's information technology software alone or in combination with tangible capital assets that are not currently reported.

## **Required Supplementary Information**

**SPENCER MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF SPENCER**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, EXPENDITURES  
AND CHANGES IN NET POSITION- BUDGET AND ACTUAL (CASH BASIS)  
REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2022**

	Budgeted Amounts			Budget to
	Original	Amended	Actual	Actual Variance
Receipts:				
Municipal Electric Utility			20,587,356	
Municipal Water Utility			4,039,427	
Municipal Communications Utility			7,345,688	
	\$ 37,909,066	37,909,066	31,972,471	5,936,595
Expenditures:				
Municipal Electric Utility			16,813,251	
Municipal Water Utility			3,338,281	
Municipal Communications Utility			5,756,548	
	35,116,190	35,116,190	25,908,080	10,208,110
Excess (Deficiency) of Revenues Over Expenditures	2,792,876	2,792,876	6,064,391	(3,271,515)
Net Position at beginning of year	19,528,835	19,528,835	22,158,658	(2,629,823)
Net Position at end of year	\$ 22,321,711	22,321,711	28,223,049	(5,901,338)

See accompanying independent auditor's report.

**SPENCER MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF SPENCER**

**BUDGET TO GAAP RECONCILIATION  
FOR ELECTRIC, WATER AND COMMUNICATIONS  
REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2022**

	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts:			
Municipal Electric Utility	\$ 20,587,356	285,831	20,873,187
Municipal Water Utility	4,039,427	(8,353)	4,031,074
Municipal Communications Utility	7,345,688	41,257	7,386,945
	<u>31,972,471</u>	<u>318,735</u>	<u>32,291,206</u>
Expenditures:			
Municipal Electric Utility	16,813,251	224,691	17,037,942
Municipal Water Utility	3,338,281	(417,764)	2,920,517
Municipal Communications Utility	5,756,548	1,297,501	7,054,049
Total Expenditures	<u>25,908,080</u>	<u>1,104,428</u>	<u>27,012,508</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>6,064,391</u>	<u>(785,693)</u>	<u>5,278,698</u>
Net Position at beginning of year	<u>22,158,658</u>	<u>73,424,392</u>	<u>95,583,050</u>
Net Position at end of year	<u>\$ 28,223,049</u>	<u>72,638,699</u>	<u>100,861,748</u>

See accompanying independent auditor's report.

**SPENCER MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF SPENCER**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**

**YEAR ENDED DECEMBER 31, 2022**

In accordance with the Code of Iowa, Spencer Municipal Utilities annually adopts a combined budget on the cash basis for the Municipal Electric Utility, Municipal Water Utility, and Municipal Communications Utility of the City of Spencer, Iowa following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized and appropriations lapse at year-end.

Formal and legal budgetary control is based upon nine major classes of expenditures, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. All Utility expenditures are included in business type activities and are required to be budgeted.

During the year, the budget was amended to capture additional costs incurred for unplanned capital improvement projects and purchased power due to the polar vortex. Disbursements during the year ended December 31, 2022 did not exceed the amounts budgeted.

**SPENCER MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF SPENCER, IOWA)**  
**SCHEDULE OF THE UTILITY'S PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**  
**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**FOR THE LAST EIGHT YEARS\***

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Utility's proportion of the net pension liability	-0.016080%	0.040001%	0.041093%	0.039160%	0.039760%
Utility's proportionate share of the net pension liability	55,512	2,809,988	2,395,540	2,478,213	2,648,794
Utility's covered payroll	\$ 3,226,102	3,321,218	2,906,981	3,029,777	2,994,211
Utility's proportionate share of the net pension liability as a percentage of its covered payroll	1.72%	84.61%	82.41%	81.80%	88.46%
Plan fiduciary net position as a percentage of the total pension liability	100.81%	82.90%	85.45%	83.62%	82.21%

Note: GASB 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Utility will present information for those years for which information is available.

See accompanying independent auditor's report.

<u>2017</u>	<u>2016</u>	<u>2015</u>
0.041170%	0.042700%	0.047330%
2,590,943	2,109,673	1,877,047
2,939,675	2,935,330	2,960,885
88.14%	71.87%	63.39%
81.82%	85.19%	87.16%

**SPENCER MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF SPENCER  
SCHEDULE OF UTILITY CONTRIBUTIONS**

**FOR THE LAST 10 YEARS  
REQUIRED SUPPLEMENTARY INFORMATION**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Statutorily required contribution	\$ 340,456	\$ 304,544	\$ 313,523	\$ 274,419
Contributions in relation to the statutorily required contribution	<u>(340,456)</u>	<u>(304,544)</u>	<u>(313,523)</u>	<u>(274,419)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 3,606,523	\$ 3,226,102	\$ 3,321,218	\$ 2,906,981
Contributions as a percentage of covered-employee payroll	9.44%	9.44%	9.44%	9.44%

See accompanying independent auditor's report.



<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$ 278,285	\$ 267,383	\$ 262,513	\$ 262,125	\$ 264,407	\$ 279,786
<u>(278,285)</u>	<u>(267,383)</u>	<u>(262,513)</u>	<u>(262,125)</u>	<u>(264,407)</u>	<u>(279,786)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,029,777	\$ 2,994,211	\$ 2,939,675	\$ 2,935,330	\$ 2,960,885	\$ 3,179,386
9.19%	8.93%	8.93%	8.93%	8.93%	8.80%

**SPENCER MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF SPENCER  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
PENSION LIABILITY**

**FOR THE YEAR ENDED DECEMBER 31, 2022**

Changes of Benefit Terms

There are no significant changes in benefit terms.

Changes of Assumptions

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**SCHEDULE OF CHANGES IN THE UTILITY'S**  
**TOTAL OPEB LIABILITY, RELATED RATIOS, AND NOTES**

**FOR THE PAST FIVE YEARS**  
**REQUIRED SUPPLEMENTARY INFORMATION**

	2022	2021	2020	2019	2018
Service cost	\$ 16,164	17,269	14,361	11,230	11,049
Interest	7,517	5,931	8,828	9,395	7,814
Differences between expected and actual experience	(34,140)	56,026	-	46,682	12,520
Changes in assumptions	12,129	9,079	15,681	(5,205)	(7,071)
Benefit Payments	(29,102)	(36,600)	(29,022)	(17,024)	(13,882)
Net change in total OPEB liability	(27,432)	51,705	9,848	45,078	10,430
Total OPEB liability, beginning of year	332,399	280,694	270,846	225,768	215,338
Total OPEB liability, end of year	\$ 304,967	332,399	280,694	270,846	225,768
Covered payroll	\$3,376,069	3,269,801	2,885,840	2,702,264	2,861,768
Total OPEB liability as a percentage of covered payroll	9.0%	10.2%	9.7%	10.0%	7.9%

**Notes to Schedule of Changes in the County's Total OPEB Liability and Related Ratios**

*Changes in Benefit Terms*

There were no significant changes in benefit terms.

*Changes in Assumptions*

Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

Year ended December 31, 2022	4.31%
Year ended December 31, 2021	2.25%
Year ended December 31, 2020	2.12%
Year ended December 31, 2019	3.26%
Year ended December 31, 2018	4.11%

See accompanying independent auditor's report.

## **SUPPLEMENTARY INFORMATION**

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**COMPARATIVE SUMMARY OF ELECTRIC**  
**FINANCIAL DATA**  
**DECEMBER 31, 2022 AND 2021**

	2022	2021
<b>Assets</b>		
Current assets:		
Cash and Cash Equivalents		
Unrestricted	\$ 12,000,039	8,365,016
Restricted	701,151	562,069
Board Designated	7,900,000	7,900,000
Accounts Receivable (Net of Allowance for Doubtful Accounts)	1,430,680	1,165,038
Accrued Interest Receivable	46,751	-
Unbilled Usage	463,428	406,915
Lease Receivables	251,400	422,822
Materials and Supplies Inventory	610,349	631,148
Fuel Inventory	488,468	446,782
Notes Receivable - City of Spencer	-	10,417
Notes Receivable - Short Term	150,791	114,607
Prepayments and Other	321,993	251,840
Total current assets	<u>24,365,050</u>	<u>20,276,654</u>
Capital assets:		
Land	148,872	148,872
Construction in Progress	943,085	600,011
Plant in Service	88,828,888	88,189,487
Accumulated Depreciation	<u>(47,634,865)</u>	<u>(45,630,519)</u>
Total capital assets	<u>42,285,980</u>	<u>43,307,851</u>
Noncurrent assets:		
Notes Receivable - Other	<u>745,601</u>	<u>536,393</u>
Total noncurrent assets	<u>745,601</u>	<u>536,393</u>
<b>Total assets</b>	<u>67,396,631</u>	<u>64,120,898</u>
<b>Deferred outflows of resources</b>		
Pension related deferred outflows	254,654	339,207
OPEB related deferred outflows	<u>96,771</u>	<u>104,154</u>
Total deferred outflows of resources	<u>351,425</u>	<u>443,361</u>

See accompanying independent accountant's report.

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**COMPARATIVE SUMMARY OF ELECTRIC - continued**  
**FINANCIAL DATA**  
**DECEMBER 31, 2022 AND 2021**

	2022	2021
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	1,163,836	1,344,160
Payroll & Sales Tax Payable	105,536	96,625
Accrued Payroll and Compensated Absences	231,462	229,073
Consumer Deposits	155,355	131,938
Unearned Revenue	8,990	5,320
Total current liabilities	<u>1,665,179</u>	<u>1,807,116</u>
Noncurrent liabilities:		
Net pension liability	7,183	1,227,418
Total OPEB liability	<u>244,803</u>	<u>271,820</u>
Total noncurrent liabilities	<u>251,986</u>	<u>1,499,238</u>
<b>Total liabilities</b>	<u>1,917,165</u>	<u>3,306,354</u>
<b>Deferred inflows of resources</b>		
Pension Related Deferred Inflows	930,762	42,085
Lease Related Deferred Inflows	246,218	422,822
OPEB Related Deferred Inflows	<u>31,737</u>	<u>6,069</u>
Total deferred inflows	1,208,717	470,976
<b>Net position</b>		
Net investment in capital assets	42,285,980	43,307,851
Restricted	545,796	430,131
Unrestricted	<u>21,790,398</u>	<u>17,048,947</u>
<b>Total net position</b>	<u><u>\$ 64,622,174</u></u>	<u><u>60,786,929</u></u>

See accompanying independent accountant's report.

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**COMPARATIVE SUMMARY OF**  
**ELECTRIC FINANCIAL DATA**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
Operating revenues:		
Residential	\$ 5,087,847	4,766,016
Commercial	4,914,696	4,747,568
Public Authorities	1,300,765	1,272,219
Sales for Resale	3,112,693	7,689,455
Energy Cost Adjustment Revenue	2,303,645	1,691,405
Penalties	29,950	25,560
SPP Attachment H Revenue	900,031	1,089,941
Renewable Energy Credit Sales	211,813	-
Miscellaneous	2,059,077	1,818,912
Total operating revenues	<u>19,920,517</u>	<u>23,101,076</u>
Operating expenses:		
Generation and Transmission		
Neal #4 Fuel and Generation	775,620	736,924
Walter Scott #4 Fuel and Generation	1,112,240	858,788
Purchase Power	8,108,959	10,554,914
Other	531,626	704,199
Distribution	1,432,082	1,635,272
Depreciation and Amortization	2,817,115	2,893,110
Customer Operations	390,235	523,739
Uncollectible Accounts Expense	6,412	-
General and Administrative	851,088	865,492
Resource Conservation	102,019	103,408
Total operating expenses	<u>16,127,396</u>	<u>18,875,846</u>
Income from operations	<u>3,793,121</u>	<u>4,225,230</u>
Nonoperating income (expense):		
Interest Income on Investments	217,402	57,808
Contributions from Developers	13,434	15,174
Economic Development Expense	(284,981)	(330,042)
Lease Revenue	261,210	302,483
Grant Revenue	300,000	-
Gain/(Loss) on Plant Retirement	160,624	(83,111)
Payment in Lieu of Property Taxes	(625,565)	(645,591)
Net nonoperating income (expense)	<u>42,124</u>	<u>(683,279)</u>
Transfers out	-	(995,000)
Change in net position	3,835,245	2,546,951
Net position, beginning	<u>60,786,929</u>	<u>58,239,978</u>
Net position, ending	<u>\$ 64,622,174</u>	<u>60,786,929</u>

See accompanying independent accountant's report.

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**COMPARATIVE SUMMARY OF ELECTRIC**  
**FINANCIAL DATA**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
Cash flows from operating activities:		
Cash receipts from customers	\$ 17,432,355	21,417,540
Cash payments to suppliers	(9,448,027)	(11,519,377)
Cash payments to employees	(2,175,377)	(1,879,189)
Payment received from leasing of facilities	261,210	302,483
	<u>6,070,161</u>	<u>8,321,457</u>
Net cash provided by operating activities	<u>6,070,161</u>	<u>8,321,457</u>
Cash flows from noncapital financing activities:		
Cash payments for economic development and in lieu of property taxes	(910,546)	(975,633)
Cash payments to (from) other funds	-	(995,000)
	<u>(910,546)</u>	<u>(1,970,633)</u>
Net cash used by noncapital financing activities	<u>(910,546)</u>	<u>(1,970,633)</u>
Cash flows from capital and related financing activities:		
Acquisition & construction of property and equipment	(1,949,614)	(2,235,203)
Cash receipts from developers	13,434	15,174
Proceeds from sale of capital assets	325,412	-
	<u>(1,610,768)</u>	<u>(2,220,029)</u>
Net cash used by capital and related financing activities	<u>(1,610,768)</u>	<u>(2,220,029)</u>
Cash flows from investing activities:		
Payments received on revolving loan funds	114,607	22,001
Issuances of revolving loan funds	(360,000)	-
Cash receipts from grant revenue	300,000	-
Proceeds from redemption of investments	-	2,799,211
Interest received from investments	170,651	136,381
	<u>225,258</u>	<u>2,957,593</u>
Net cash provided by investing activities	<u>225,258</u>	<u>2,957,593</u>
Net increase (decrease) in cash and cash equivalents	3,774,105	7,088,388
Cash and cash equivalents-beginning of year	<u>16,827,085</u>	<u>9,738,697</u>
Cash and cash equivalents-end of year	<u>\$ 20,601,190</u>	<u>16,827,085</u>

See accompanying independent accountant's report.



**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**COMPARATIVE SUMMARY OF ELECTRIC- continued**  
**FINANCIAL DATA**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
Reconciliation:		
Cash and Cash Equivalents		
Unrestricted	12,000,039	8,317,204
Restricted	701,151	609,881
Board Designated	7,900,000	7,900,000
	<u>\$ 20,601,190</u>	<u>16,827,085</u>
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	3,793,121	4,225,230
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and Amorization	2,817,115	2,893,110
Lease revenue	261,210	302,483
Change in accounts receivable	(265,642)	73,059
Change in unbilled usage	(56,513)	(33,658)
Change in lease receivables	(251,400)	-
Change in materials and supplies inventory	20,799	301,902
Change in fuel inventory	(41,686)	326,431
Change in prepayments	(70,153)	(15,357)
Change in deferred outflows	91,936	(78,998)
Change in accounts payable	(180,324)	166,560
Change in accrued payroll and compensated absences	11,300	16,812
Change in consumer deposits	23,417	25,210
Change in unearned revenue	3,670	-
Change in OPEB liability	(27,017)	59,567
Change in net pension liability	(1,220,235)	198,523
Change in deferred inflows	1,160,563	(139,417)
Net cash provided by operating activities	<u>\$ 6,070,161</u>	<u>8,321,457</u>

See accompanying independent accountant's report.

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**COMPARATIVE SUMMARY OF WATER**  
**FINANCIAL DATA**  
**DECEMBER 31, 2022 AND 2021**

	2022	2021
<b>Assets</b>		
Current assets:		
Cash and Cash Equivalents		
Unrestricted	\$ 2,403,494	1,714,654
Restricted	1,784,515	1,772,209
Accounts receivable (Net of Allowance for Doubtful Accounts)	803,817	652,335
Unbilled Usage	94,904	92,558
Lease Receivables	93,168	111,265
Materials and Supplies Inventory	119,017	128,019
Fuel Inventory	2,718	3,244
Prepayments and Other	62,171	49,586
Total current assets	<u>5,363,804</u>	<u>4,523,870</u>
Capital assets:		
Land	2,311,614	2,311,614
Construction in Progress	1,688	15,990
Plant in Service	42,540,400	42,011,274
Accumulated Depreciation	<u>(14,433,073)</u>	<u>(13,284,858)</u>
Total capital assets	<u>30,420,629</u>	<u>31,054,020</u>
<b>Total assets</b>	<u>35,784,433</u>	<u>35,577,890</u>
<b>Deferred outflows of resources</b>		
Pension related deferred outflows	100,211	133,065
OPEB related deferred outflows	3,990	2,951
Total deferred outflows of resources	<u>104,201</u>	<u>136,016</u>

See accompanying independent accountant's report.

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**COMPARATIVE SUMMARY OF WATER - continued**  
**FINANCIAL DATA**  
**DECEMBER 31, 2022 AND 2021**

	2022	2021
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	873,582	774,145
Payroll & Sales Tax Payable	34,162	24,390
Accrued Payroll and Compensated Absences	65,228	64,508
Accrued interest payable	28,338	30,282
Unearned revenue	-	1,500
Current Maturities of Long-Term Debt	924,000	901,000
Total current liabilities	<u>1,925,310</u>	<u>1,795,825</u>
Noncurrent liabilities:		
Notes Payable	10,363,000	10,999,000
Bonds Payable	2,480,449	2,750,283
Less - Current Maturities	(924,000)	(901,000)
Net pension liability	18,723	429,141
Total OPEB liability	24,726	25,241
Total noncurrent liabilities	<u>11,962,898</u>	<u>13,302,665</u>
<b>Total liabilities</b>	<u>13,888,208</u>	<u>15,098,490</u>
<b>Deferred inflows of resources</b>		
Pension Related Deferred Inflows	323,719	29,234
Lease Related Deferred Inflows	90,072	111,265
OPEB Related Deferred Inflows	9,043	7,882
Total deferred inflows	<u>422,834</u>	<u>148,381</u>
<b>Net position</b>		
Net investment in capital assets	17,577,180	17,304,737
Restricted	1,784,515	1,772,209
Unrestricted	2,215,897	1,390,089
<b>Total net position</b>	<u><u>\$ 21,577,592</u></u>	<u><u>20,467,035</u></u>

See accompanying independent accountant's report.

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**COMPARATIVE SUMMARY OF WATER**  
**FINANCIAL DATA**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
Operating revenues:		
Residential	\$ 2,761,848	2,767,682
Commercial	1,093,849	1,102,328
Penalites	-	-
Service Permits	13,473	22,770
Miscellaneous	4,286	8,837
Total operating revenues	<u>3,873,456</u>	<u>3,901,617</u>
Operating expenses:		
Treatment	705,595	616,230
Distribution	460,054	639,678
Depreciation and Amortization	1,212,723	1,279,031
Customer Operations	46,437	48,039
Uncollectible Accounts Expense	368	1,190
General and Administrative	219,447	216,372
Total operating expenses	<u>2,644,624</u>	<u>2,800,540</u>
Income from operations	<u>1,228,832</u>	<u>1,101,077</u>
Nonoperating income (expense):		
Interest Income on Investments	43,492	18,139
Contributions from Developers	21,263	136,026
Lease Revenue	69,598	75,294
Interest Expense	(275,893)	(311,109)
Gain/(Loss) on Plant Retirement	23,265	7,000
Net nonoperating income (expense)	<u>(118,275)</u>	<u>(74,650)</u>
Transfers in	-	995,000
Change in net position	1,110,557	2,021,427
Net position, beginning	<u>20,467,035</u>	<u>18,445,608</u>
Net position, ending	<u>\$ 21,577,592</u>	<u>20,467,035</u>

See accompanying independent accountant's report.

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**COMPARATIVE SUMMARY OF WATER**  
**FINANCIAL DATA**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
Cash flows from operating activities:		
Cash receipts from customers	\$ 3,714,664	4,236,857
Cash payments to suppliers	(678,920)	(1,150,924)
Cash payments to employees	(729,933)	(536,354)
Payment received from leasing of facilities	69,598	75,294
	<u>2,375,409</u>	<u>2,624,873</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities:		
Cash payments from other funds	-	995,000
	<u>-</u>	<u>995,000</u>
Net cash used by noncapital financing activities		
Cash flows from capital and related financing activities:		
Acquisition & construction of property and equipment	(745,757)	(528,204)
Cash receipts from developers	21,263	136,026
Revenue bond principal repayment	(905,834)	(2,069,561)
Proceeds from sale of capital assets	190,410	7,000
Interest Paid	(277,837)	(318,055)
	<u>(1,717,755)</u>	<u>(2,772,794)</u>
Net cash used by capital and related financing activities		
Cash flows from investing activities:		
Interest received from investments	43,492	24,982
	<u>43,492</u>	<u>24,982</u>
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents	701,146	872,061
Cash and cash equivalents-beginning of year	3,486,863	2,614,802
Cash and cash equivalents-end of year	<u>\$ 4,188,009</u>	<u>3,486,863</u>

See accompanying independent accountant's report.

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**STATEMENTS OF CASH FLOWS - continued**  
**WATER UTILITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
Reconciliation:		
Cash and Cash Equivalents		
Unrestricted	2,403,494	1,714,654
Restricted	1,784,515	1,772,209
	<u>\$ 4,188,009</u>	<u>3,486,863</u>
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	1,228,832	1,101,077
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and Amorization	1,212,723	1,279,031
Leased Facilities Income	69,598	75,294
Change in accounts receivable	(151,482)	337,680
Change in unbilled usage	(2,346)	(2,750)
Change in lease receivables	(93,168)	-
Change in materials and supplies inventory	9,002	7,244
Change in fuel inventory	526	(1,676)
Change in prepayments	(12,585)	(13,605)
Change in deferred outflows	31,815	(2,854)
Change in accounts payable	99,437	(193,606)
Change in unearned income	9,772	1,500
Change in accrued payroll and compensated absences	(1,500)	20,378
Change in OPEB liability	(515)	2,967
Change in net pension liability	(410,418)	58,853
Change in deferred inflows	385,718	(44,660)
Net cash provided by operating activities	<u>\$ 2,375,409</u>	<u>2,624,873</u>

See accompanying independent accountant's report.

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**COMPARATIVE SUMMARY OF COMMUNICATION**  
**FINANCIAL DATA**  
**DECEMBER 31, 2022 AND 2021**

	2022	2021
<b>Assets</b>		
Current assets:		
Cash and Cash Equivalents		
Unrestricted	\$ 3,407,207	1,796,898
Restricted	26,643	47,812
Accounts receivable (Net of Allowance for Doubtful Accounts)	47,768	65,605
Unbilled Usage	18,393	21,386
Materials and Supplies Inventory	267,713	378,029
Prepayments and Other	238,570	187,137
Total current assets	<u>4,006,294</u>	<u>2,496,867</u>
Capital assets:		
Land	10,342	10,342
Construction in Progress	80,126	28,690
Plant in Service	28,228,879	31,495,052
Accumulated Depreciation	<u>(16,521,066)</u>	<u>(18,226,951)</u>
Total capital assets	<u>11,798,281</u>	<u>13,307,133</u>
Noncurrent assets:		
Long-Term Receivables	<u>152,711</u>	<u>149,699</u>
Total noncurrent assets	<u>152,711</u>	<u>149,699</u>
<b>Total assets</b>	<u>15,957,286</u>	<u>15,953,699</u>
<b>Deferred outflows of resources</b>		
Pension related deferred outflows	277,593	369,827
OPEB related deferred outflows	<u>9,589</u>	<u>9,413</u>
Total deferred outflows of resources	<u>287,182</u>	<u>379,240</u>

See accompanying independent accountant's report.

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**COMPARATIVE SUMMARY OF COMMUNICATION - continued**  
**FINANCIAL DATA**  
**DECEMBER 31, 2022 AND 2021**

	2022	2021
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	300,322	380,693
Payroll & Sales Tax Payable	75,503	70,278
Accrued Payroll and Compensated Absences	188,977	187,819
Customer Deposits	26,643	47,812
Current Portion of Unearned Revenue	2,400	2,400
Total current liabilities	<u>593,845</u>	<u>689,002</u>
Noncurrent liabilities:		
Unearned Revenue	13,200	15,600
Net Pension Liability	29,606	1,153,434
Total OPEB Liability	35,438	35,338
Total noncurrent liabilities	<u>78,244</u>	<u>1,204,372</u>
<b>Total liabilities</b>	<u>672,089</u>	<u>1,893,374</u>
<b>Deferred inflows of resources</b>		
Pension related deferred inflows	883,096	78,992
OPEB related deferred inflows	27,301	31,487
Total deferred inflows	<u>910,397</u>	<u>110,479</u>
<b>Net position</b>		
Net investment in capital assets	11,798,281	13,307,133
Restricted	-	-
Unrestricted	2,863,701	1,021,953
<b>Total net position</b>	<u><u>\$ 14,661,982</u></u>	<u><u>14,329,086</u></u>

See accompanying independent accountant's report.



**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**COMPARATIVE SUMMARY OF COMMUNICATION**  
**FINANCIAL DATA**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
Operating revenues:		
Cable Service Revenue	2,402,303	2,495,652
Telephone Service Revenue	1,038,852	1,177,636
Data Services Revenue	3,808,279	3,342,858
Miscellaneous	53,782	57,846
Total operating revenues	<u>7,303,216</u>	<u>7,073,992</u>
Operating expenses:		
Plant Specific and Programming	4,030,555	4,013,582
Depreciation and Amortization	1,738,165	1,681,028
Customer Operations	635,718	538,639
Uncollectible Accounts Expense	35,509	13,361
General and Administrative	503,685	561,855
Total operating expenses	<u>6,943,632</u>	<u>6,808,465</u>
Income from operations	<u>359,584</u>	<u>265,527</u>
Nonoperating income (expense):		
Interest Income on Investments	36,494	5,501
Net Income from Joint Ventures	25,099	19,493
Lease Revenue	22,136	24,521
Interest Expense	-	(24,169)
Gain/(Loss) on Plant Retirement	(110,417)	21,614
Net nonoperating income (expense)	<u>(26,688)</u>	<u>46,960</u>
Change in net position	332,896	312,487
Net position, beginning	<u>14,329,086</u>	<u>14,016,599</u>
Net position, ending	<u>\$ 14,661,982</u>	<u>14,329,086</u>

See accompanying independent accountant's report.

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**COMPARATIVE SUMMARY OF COMMUNICATION**  
**FINANCIAL DATA**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
Cash flows from operating activities:		
Cash receipts from customers	\$ 7,264,971	7,107,846
Cash payments to suppliers	(3,388,872)	(3,835,358)
Cash payments to employees	(2,027,946)	(1,441,192)
Payment received from leasing	22,136	24,521
	<u>1,870,289</u>	<u>1,855,817</u>
Cash flows from capital and related financing activities:		
Acquisition & construction of property and equipment	(339,730)	(802,344)
Revenue bond principal repayment	-	(1,650,000)
Proceeds from sale of capital assets	-	21,614
Interest Paid	-	(27,666)
	<u>(339,730)</u>	<u>(2,458,396)</u>
Cash flows from investing activities:		
Payments Received on Long-Term Receivables	22,087	60,790
Interest received from investments	36,494	5,501
	<u>58,581</u>	<u>66,291</u>
Net cash provided by investing activities	<u>58,581</u>	<u>66,291</u>
Net increase (decrease) in cash and cash equivalents	1,589,140	(536,288)
Cash and cash equivalents-beginning of year	<u>1,844,710</u>	<u>2,380,998</u>
Cash and cash equivalents-end of year	<u>\$ 3,433,850</u>	<u>1,844,710</u>

See accompanying independent accountant's report.

**SPENCER MUNICIPAL UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF SPENCER**  
**COMPARATIVE SUMMARY OF COMMUNICATION - continued**  
**FINANCIAL DATA**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
Reconciliation:		
Cash and Cash Equivalents		
Unrestricted	3,407,207	1,796,898
Restricted	26,643	47,812
	<u>\$ 3,433,850</u>	<u>1,844,710</u>
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	359,584	265,527
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and Amorization	1,738,165	1,681,028
Lease revenue	22,136	24,521
Change in accounts receivable	17,837	35,017
Change in unbilled usage	2,993	7,740
Change in materials and supplies inventory	110,316	(365,935)
Change in prepayments	(51,433)	25,586
Change in deferred outflows	92,058	(6,843)
Change in accounts payable	(80,371)	94,605
Change in accrued payroll and compensated absences	6,383	47,025
Change in customer deposits	(21,169)	6,858
Change in unearned revenue	(2,400)	(2,400)
Change in OPEB liability	100	(10,829)
Change in net pension liability	(1,123,828)	157,078
Change in deferred inflows	799,918	(103,161)
Net cash provided by operating activities	<u>\$ 1,870,289</u>	<u>1,855,817</u>

See accompanying independent accountant's report.



T.P. ANDERSON & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of  
Spencer Municipal Utilities:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Spencer Municipal Utilities, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated April 14, 2023.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Utility's internal control over financial reporting (internal control) as a basis for designing the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance which is described in Part II of the accompanying schedule of findings.

Comments involved statutory and other legal matters about the Utility's operations for the year ended December 31, 2022 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on test and samples, not all transactions that might have an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## **Spencer Municipal Utility's Response to the Findings**

The Utility's responses to the findings identified in our audit is described in the accompanying schedule of findings. The Utility's responses were noted subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*TP Anderson & Company, PC*

Humboldt, Iowa

April 14, 2023

**SPENCER MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF SPENCER  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2022**

**Part I: Findings Related to the Financial Statements**

**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

No matters were noted.

**Part II: Other Findings Related to Statutory Reporting:**

II-A-22      Certified Budget – Disbursements during the year ended December 31, 2022 did not exceed the amounts budgeted.

II-B-22      Questionable Disbursement – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-22      Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.

II-D-22      Business Transactions – Business transactions between the Utilities and Utilities' officials and employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Duane Barber, Board Trustee, General Manager of Don Pierson Ford	Vehicle & Repairs	\$ 2,405

These transactions do not appear to represent a conflict of interest since certain amounts paid were less than \$6,000 or purchases were competitively bid, per Chapter 362.5(j) of the Code of Iowa.

II-E-22      Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

**SPENCER MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF SPENCER  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2022**

II-F-22      Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

Although minutes of Board proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The Utility should ensure all minutes are published within the fifteen days, as required.

Response – We will comply with the Code requirements.

Conclusion – Response accepted.

II-G-22      Revenue Bonds – No instances of noncompliance with revenue bond provisions were noted.

II-H-22      Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.

II-I-22      Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.